

**City of New Buffalo
New Buffalo, Michigan**

**Annual Financial Statements
and
Auditors' Report**

June 30, 2008

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City of New Buffalo
List of Elected and Appointed Officials
June 30, 2008

City Council

Gary Ramberg	Mayor
William Geisler	Councilman
James Oselka	Councilman
Susan Maroko	Councilmember
Jack Kennedy	Councilman

Other Officers and Officials

Charles Dobbins	City Manager
Sandra White	City Clerk
Susan Rogers	City Treasurer

Independent Auditors' Report

Members of the City Council
City of New Buffalo
New Buffalo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of New Buffalo as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of New Buffalo as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The managements' discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of New Buffalo's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

November 11, 2008
Kalamazoo, Michigan

City of New Buffalo, Michigan
Management's Discussion and Analysis
June 30, 2008

The management of the City of New Buffalo, Michigan ("the City") provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008 for the benefit of the readers of these financial statements. This management's discussion and analysis ("MD&A") is intended to assist the reader in focusing on significant financial issues and provide an overview of the City's financial activity. The City encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

HIGHLIGHTS

Government-wide:

The assets of the City exceeded its liabilities at the close of the fiscal year by \$9.4 million (reported as net assets), an increase of \$1,031,277 from the previous year.

Fund Level:

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$2,200,386. Of this, \$1,205,237 is reported as unreserved fund balance. The remaining fund balance is reserved for debt service (\$128,618), building permits (\$14,182), ambulance service (\$36,531), and Park Improvements (\$815,818). At the end of the fiscal year, fund balance for the General Fund was \$591,434, an increase of \$32,327. The proprietary funds reported a increase in net assets of \$486,746 during the year.

Long Term Debt:

The City's total long-term debt was \$5,125,195 at June 30, 2008, a increase of \$41,136. More detailed information regarding these activities and funds begins on page 4-24.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is an introduction to the City's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

City of New Buffalo, Michigan
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The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The City's combined net assets increased \$1,031,277 over the course of this fiscal year's operations to a total of \$9,454,712. The net assets of the governmental activities increased \$544,531 and business-type activities increased \$486,746.

Net Assets as of June 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets						
Current and other non-current assets	\$ 2,547,097	\$ 1,856,810	\$ 5,226,650	\$ 4,843,646	\$ 7,773,747	\$ 6,700,456
Capital assets	<u>3,991,419</u>	<u>3,975,141</u>	<u>3,093,888</u>	<u>3,259,838</u>	<u>7,085,307</u>	<u>7,234,979</u>
Total Assets	6,538,516	5,831,951	8,320,538	8,103,484	14,859,054	13,935,435
Liabilities						
Long-term liabilities	2,604,713	2,442,935	1,989,779	2,208,840	4,594,492	4,651,775
Other liabilities	<u>447,626</u>	<u>447,370</u>	<u>362,224</u>	<u>412,855</u>	<u>809,850</u>	<u>860,225</u>
Total Liabilities	3,052,339	2,890,305	2,352,003	2,621,695	5,404,342	5,512,000
Net Assets						
Invested in capital assets, net of related debt	1,100,072	1,322,283	2,354,150	2,353,520	3,454,222	3,675,803
Restricted	957,290	88,508	2,525,314	2,095,515	3,482,604	2,184,023
Unrestricted	<u>1,428,815</u>	<u>1,530,855</u>	<u>1,089,071</u>	<u>1,032,754</u>	<u>2,517,886</u>	<u>2,563,609</u>
Total Net Assets	<u>\$ 3,486,177</u>	<u>\$ 2,941,646</u>	<u>\$ 5,968,535</u>	<u>\$ 5,481,789</u>	<u>\$ 9,454,712</u>	<u>\$ 8,423,435</u>

The largest component of the City's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Unrestricted net assets are the next largest component. These represent resources that may be used at the City's discretion, but often have limitations based upon policy action. The remaining portion, restricted net assets, is subject to external restrictions such as bond covenants, City Charter, State legislation or Constitutional provision.

City of New Buffalo, Michigan
Management's Discussion and Analysis
June 30, 2008

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's net assets changed during the fiscal year.

Change in Net Assets for the Fiscal Year Ended June 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues						
Program Revenues						
Charges for Services	\$ 631,162	\$ 643,384	\$ 1,620,999	\$ 1,673,097	\$ 2,252,161	\$ 2,316,481
Operating Grants	22,650	11,050	-	-	22,650	11,050
Capital Grants	518,676	13,810	-	-	518,676	13,810
General Revenues					-	-
Taxes	2,167,370	1,895,408	-	-	2,167,370	1,895,408
State shared revenue	393,887	397,444	-	-	393,887	397,444
Unrestricted investment earnings	74,842	78,114	49,554	65,601	124,396	143,715
Other	84,299	97,342	340,291	35,222	424,590	132,564
Total Revenues	3,892,886	3,136,552	2,010,844	1,773,920	5,903,730	4,910,472
Expenses						
General government	596,894	522,083	-	-	596,894	522,083
Public safety	1,143,072	980,578	-	-	1,143,072	980,578
Public works	799,582	870,770	-	-	799,582	870,770
Recreation and culture	382,301	358,201	-	-	382,301	358,201
Other	253,860	225,868	-	-	253,860	225,868
Interest on long-term debt	126,869	127,757	-	-	126,869	127,757
Sewer	-	-	680,543	659,933	680,543	659,933
Water	-	-	889,332	909,082	889,332	909,082
Total Expenses	3,302,578	3,085,257	1,569,875	1,569,015	4,872,453	4,654,272
Transfers in	-	-	45,777	45,777	45,777	45,777
Transfers out	(45,777)	(45,777)	-	-	(45,777)	(45,777)
Increase in net assets	544,531	5,518	486,746	250,682	1,031,277	256,200
Beginning net assets	2,941,646	2,936,128	5,481,789	5,231,107	8,423,435	8,167,235
Ending net assets	<u>\$ 3,486,177</u>	<u>\$ 2,941,646</u>	<u>\$ 5,968,535</u>	<u>\$ 5,481,789</u>	<u>\$ 9,454,712</u>	<u>\$ 8,423,435</u>

City of New Buffalo, Michigan
Management's Discussion and Analysis
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Property taxes comprise 56% of Governmental Activities revenue. The City's millage during the fiscal year was 10.8295 mills. A special parks and recreation levy was .4788 mills, for a total Citywide tax levy of 11.3083 mills. In accordance with Charter and State Constitutional provisions, the City may levy up to 20 mills for operation in fiscal year 2007-2008. However, any increase above the current millage is constrained by the truth in taxation requirements and the Headlee amendment. Accordingly, a referendum would be required to increase the levy amount.

The City has no income tax.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. Fiscal year 2007-2008 receipts from the State of Michigan trended downward, attributed to discretionary reductions in revenue sharing payments by the State of Michigan.

Business-type Activities

Net assets of the business-type activities increased by \$486,746 during the fiscal year. The Sewer Fund net assets increased by \$97,337. The Water Fund net assets increased by \$389,409.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds reported fund balances of \$2,200,386. Of this total amount, \$2,021,055 constitutes unreserved fund balance. The reader is reminded that the financial condition of each fund must be reviewed along with the appropriate reserves to have on hand for emergencies and contingencies before concluding that any amounts are generally available for appropriation. The remainder of fund balance is reserved and is not available for new spending because it has been reserved for debt service and special projects.

General Fund

The General Fund is the chief operating fund of the City. At the end of fiscal year 2007-2008 the General Fund balance was \$591,434. Of this amount, \$14,182 was reserved for building permits and \$36,531 was reserved for ambulance. The fund balance increased by \$32,327 over the previous fiscal year.

General Fund Budgetary Highlights

Although expenditures were less than budget, they were still \$171,552 more than the prior year.

Property tax revenue (including penalties and interest) increased \$271,962 or 14.3% in fiscal year 2007 - 2008. This is attributed to increases in general property values and significant new housing growth, primarily second/vacation homes.

City of New Buffalo, Michigan
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State revenue sharing payments remained stagnant due to a previous statewide economic downturn from which the State of Michigan has yet to fully recover.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2007-2008, the City had invested \$7,085,307, net of accumulated depreciation, in a broad range of capital assets (see the table below). Total depreciation charges for this fiscal year were \$498,904.

Capital Assets as of June 30, 2008 and 2007
(net of depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 181,467	\$ 181,467	\$ 20,500	\$ 20,500	\$ 201,967	\$ 201,967
Land Improvements	295,582	160,446	-	-	295,582	160,446
Buildings	1,995,884	1,945,699	2,975,168	3,125,151	4,971,052	5,070,850
Machinery and Equipment	1,230,130	1,401,265	98,220	114,187	1,328,350	1,515,452
Infrastructure	288,356	286,264	-	-	288,356	286,264
Total	<u>\$ 3,991,419</u>	<u>\$ 3,975,141</u>	<u>\$ 3,093,888</u>	<u>\$ 3,259,838</u>	<u>\$ 7,085,307</u>	<u>\$ 7,234,979</u>

This year's major additions included:

Air Compressor	\$10,285
Livescan Device	17,240
Wayfinding Signs	17,410
Oselka Park Improvements (in progress)	271,993

City of New Buffalo, Michigan
Management's Discussion and Analysis
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Long-term Debt: The City, along with the New Buffalo Building Authority (NBBA), a blended component unit of the City, are empowered by law to authorize, issue, and sell debt obligations. Limited tax and unlimited tax general obligation bonds are backed by the full faith and credit of the City. The City also can issue revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. NBBA's bonds financed the construction of the City Hall. Rents paid by the City fund the debt service requirements for related improvements, but they are also backed by a limited tax pledge. More detailed information regarding the City's long-term obligations is presented in Note 8 to the financial statements.

Outstanding Bonded Debt as of June 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
General Obligation Bonds (backed by the City)	\$ 1,915,000	\$ 1,580,000	\$ 765,000	\$ 940,000	\$ 2,680,000	\$ 2,520,000
Revenues Bonds and Notes (backed by specific fee revenues)	245,000	280,000	-	-	245,000	280,000
Total	<u>\$ 2,160,000</u>	<u>\$ 1,860,000</u>	<u>\$ 765,000</u>	<u>\$ 940,000</u>	<u>\$ 2,925,000</u>	<u>\$ 2,800,000</u>

ECONOMIC CONDITION AND OUTLOOK

The current economic condition of the City of New Buffalo is good recognizing that local growth has moderated due to the influence of regional and national economic trends. The general fund balance has increased again this year with additional property tax revenue from new growth exceeding increases in operating expenses.

The economic outlook for the City is positive and an agreement for a new Amtrak Train Station has been entered into with an expected completion date of late 2008 or spring 2009. The Four Winds Casino of the Pokagon Band of the Pottawatomie Indians completed its first year of operation. Goals and objectives for the coming year include long range financial planning for City infrastructure and Central Business District improvements, a major Water Plan project, Oselka Park Phase II, Water Front Concept Development Plan and Master Plan update. These items will be addressed in the context of a five year financial plan that will include forecasts for revenues, operating and capital costs, major projects, and fund balance projections.

City of New Buffalo, Michigan
Management's Discussion and Analysis
June 30, 2008

CONTACTING THE CITY FINANCE DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Treasurer at (269) 469-1500.

City of New Buffalo
Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,889,829	\$ 2,344,359	\$ 4,234,188
Receivables			
Customers	60,931	309,345	370,276
Special assessments	192,407	-	192,407
Grants	253,000	-	253,000
Due from other units of government	88,839	-	88,839
Inventories	-	750	750
Prepaid items	45,503	15,100	60,603
Restricted assets			
Cash and cash equivalents	-	15,216	15,216
Bond issue costs (net)	16,588	17,395	33,983
Investment in joint venture	-	2,524,485	2,524,485
Capital assets not being depreciated	181,467	20,500	201,967
Capital assets - net of accumulated depreciation	<u>3,809,952</u>	<u>3,073,388</u>	<u>6,883,340</u>
 Total assets	 <u>6,538,516</u>	 <u>8,320,538</u>	 <u>14,859,054</u>
Liabilities			
Accounts payable	68,950	53,132	122,082
Accrued and other liabilities	75,454	66,395	141,849
Customer deposits	-	15,216	15,216
Noncurrent liabilities			
Due within one year	303,222	227,481	530,703
Due in more than one year	<u>2,604,713</u>	<u>1,989,779</u>	<u>4,594,492</u>
 Total liabilities	 <u>3,052,339</u>	 <u>2,352,003</u>	 <u>5,404,342</u>

See Accompanying Notes to Financial Statements

City of New Buffalo
Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	1,100,072	2,354,150	3,454,222
Restricted for:			
Joint venture	-	956,846	956,846
Expansion	-	203,782	203,782
Maintenance	-	1,364,686	1,364,686
Debt service	90,759	-	90,759
Ambulance	36,531	-	36,531
Building permits	14,182	-	14,182
Park Improvements	815,818	-	815,818
Unrestricted	<u>1,428,815</u>	<u>1,089,071</u>	<u>2,517,886</u>
 Total net assets	 <u>\$ 3,486,177</u>	 <u>\$ 5,968,535</u>	 <u>\$ 9,454,712</u>

See Accompanying Notes to Financial Statements

City of New Buffalo
Statement of Activities
For the Year Ended June 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Functions/Programs							
Primary government							
Governmental activities							
General government	\$ 596,894	\$ 223,349	\$ -	\$ -	\$ (373,545)	\$ -	\$ (373,545)
Public safety	1,143,072	-	-	-	(1,143,072)	-	(1,143,072)
Public works	799,612	171,674	-	-	(627,938)	-	(627,938)
Health and welfare	101,948	-	-	-	(101,948)	-	(101,948)
Community and economic development	11,441	-	-	-	(11,441)	-	(11,441)
Recreation and culture	382,301	236,139	22,650	506,000	382,488	-	382,488
Other functions	140,471	-	-	-	(140,471)	-	(140,471)
Interest on long-term debt	126,869	-	-	12,676	(114,193)	-	(114,193)
Total governmental activities	<u>3,302,608</u>	<u>631,162</u>	<u>22,650</u>	<u>518,676</u>	<u>(2,130,120)</u>	<u>-</u>	<u>(2,130,120)</u>
Business-type activities							
Sewer	680,543	744,937	-	-	-	64,394	64,394
Water	889,332	876,062	-	-	-	(13,270)	(13,270)
Total business-type activities	<u>1,569,875</u>	<u>1,620,999</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,124</u>	<u>51,124</u>
Total primary government	<u>4,872,483</u>	<u>2,252,161</u>	<u>22,650</u>	<u>518,676</u>	<u>(2,130,120)</u>	<u>51,124</u>	<u>(2,078,996)</u>

See Accompanying Notes to Financial Statements

City of New Buffalo
Statement of Activities
For the Year Ended June 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
<u>Expenses</u>						
General revenues						
Property taxes				\$ 2,167,370	\$ -	\$ 2,167,370
State shared revenue				393,887	-	393,887
Unrestricted investment earnings				74,872	49,554	124,426
Income from joint venture				-	22,489	22,489
Miscellaneous				84,299	317,802	402,101
Transfers				(45,777)	45,777	-
				<u>2,674,651</u>	<u>435,622</u>	<u>3,110,273</u>
Total general revenues and transfers						
				544,531	486,746	1,031,277
Change in net assets						
				<u>2,941,646</u>	<u>5,481,789</u>	<u>8,423,435</u>
Net assets - beginning of year						
				<u>\$ 3,486,177</u>	<u>\$ 5,968,535</u>	<u>\$ 9,454,712</u>
Net assets - end of year						

See Accompanying Notes to Financial Statements

City of New Buffalo
Governmental Funds
Balance Sheet
June 30, 2008

	<u>Special Revenue Funds</u>				Special	Park	Nonmajor	Total
	<u>General</u>	<u>Major</u>	<u>Local</u>	<u>Park</u>	<u>Assess-</u>	<u>Improvements</u>	<u>Governmental</u>	<u>Governmental</u>
		<u>Street</u>	<u>Street</u>	<u>Fund</u>	<u>ment</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Assets								
Cash and cash equivalents	\$ 557,082	\$ 24,447	\$ 9,602	\$ 11,744	\$ 95,938	\$ 570,936	\$ 620,080	\$ 1,889,829
Receivables								
Customers	53,492	-	-	7,439	-	-	-	60,931
Special assessments	-	-	-	-	28,394	-	-	28,394
Grants	-	-	-	-	-	253,000	-	253,000
Due from other units								
of government	56,910	22,452	9,477	-	-	-	-	88,839
Prepaid items	32,603	-	-	12,900	-	-	-	45,503
Special assessment								
receivable - deferred	-	-	-	-	164,013	-	-	164,013
Total assets	<u>\$ 700,087</u>	<u>\$ 46,899</u>	<u>\$ 19,079</u>	<u>\$ 32,083</u>	<u>\$ 288,345</u>	<u>\$ 823,936</u>	<u>\$ 620,080</u>	<u>\$ 2,530,509</u>
Liabilities								
Accounts payable	\$ 52,143	\$ 54	\$ 1,821	\$ 6,814	\$ -	\$ 8,118	\$ -	\$ 68,950
Accrued and other liabilities	25,339	2,391	1,890	7,975	-	-	-	37,595
Deferred revenue	31,171	-	-	-	192,407	-	-	223,578
Total liabilities	<u>108,653</u>	<u>2,445</u>	<u>3,711</u>	<u>14,789</u>	<u>192,407</u>	<u>8,118</u>	<u>-</u>	<u>330,123</u>

See Accompanying Notes to Financial Statements

City of New Buffalo
Governmental Funds
Balance Sheet
June 30, 2008

	<u>Special Revenue Funds</u>				Special	Park	Nonmajor	Total
	<u>General</u>	<u>Major</u>	<u>Local</u>	<u>Park</u>	<u>Assess-</u>	<u>Improvements</u>	<u>Governmental</u>	<u>Governmental</u>
Fund Balances		<u>Street</u>	<u>Street</u>	<u>Fund</u>	<u>ment</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Reserved for:								
Debt service	-	-	-	-	95,938	-	32,680	128,618
Building permits	14,182	-	-	-	-	-	-	14,182
Ambulance	36,531	-	-	-	-	-	-	36,531
Park Improvements	-	-	-	-	-	815,818	-	815,818
Unreserved, reported in:								
General fund	540,721	-	-	-	-	-	-	540,721
Special revenue funds	-	44,454	15,368	17,294	-	-	124,410	201,526
Capital project funds	-	-	-	-	-	-	462,990	462,990
Total fund balances	<u>591,434</u>	<u>44,454</u>	<u>15,368</u>	<u>17,294</u>	<u>95,938</u>	<u>815,818</u>	<u>620,080</u>	<u>2,200,386</u>
Total liabilities and fund balances	<u>\$ 700,087</u>	<u>\$ 46,899</u>	<u>\$ 19,079</u>	<u>\$ 32,083</u>	<u>\$ 288,345</u>	<u>\$ 823,936</u>	<u>\$ 620,080</u>	<u>\$ 2,530,509</u>

City of New Buffalo
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2008

Total fund balances for governmental funds	\$ 2,200,386
Total net assets for governmental activities in the statement of net assets is different because:	
Bond issue costs (net) is expensed in the funds in the year incurred.	16,588
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,991,419
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	
Deferred state share revenue	31,171
Deferred special assessments	182,645
Special assessment interest receivable	9,762
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(37,859)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	<u>(2,907,935)</u>
Net assets of governmental activities	<u><u>\$ 3,486,177</u></u>

City of New Buffalo
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	Special Revenue Funds							
	General	Major Street	Local Street	Park Fund	Special Assessment	Park Improvements Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 2,075,953	\$ -	\$ -	\$ -	\$ -	\$ 91,417	\$ -	\$ 2,167,370
Licenses and permits	91,570	-	-	-	-	-	-	91,570
State revenue sharing	190,866	137,124	67,045	-	-	-	-	395,035
Other grants	-	-	-	-	-	506,000	-	506,000
Charges for services	303,453	-	-	236,139	-	-	-	539,592
Fines and forfeitures	41,474	-	-	-	-	-	-	41,474
Interest income	37,760	1,149	-	2,242	20,193	2,145	11,383	74,872
Other revenue	31,051	-	-	17,174	31,330	5,000	12,250	96,805
Total revenues	<u>2,772,127</u>	<u>138,273</u>	<u>67,045</u>	<u>255,555</u>	<u>51,523</u>	<u>604,562</u>	<u>23,633</u>	<u>3,912,718</u>
Expenditures								
Current								
General government	508,014	-	-	-	-	-	-	508,014
Public safety	1,008,813	-	-	-	-	-	-	1,008,813
Public works	514,436	106,433	104,722	-	-	-	-	725,591
Health and Welfare	101,948	-	-	-	-	-	-	101,948
Community and economic development	11,441	-	-	-	-	-	-	11,441
Recreation and culture	241	-	-	339,698	-	-	-	339,939
Other functions	140,456	-	-	-	-	-	15	140,471
Capital outlay	-	-	-	-	-	314,146	41,654	355,800
Debt service								
Principal retirement	35,191	-	-	-	35,000	-	141,551	211,742
Interest and fiscal charges	34,525	-	-	-	16,167	15,663	76,701	143,056
Total expenditures	<u>2,355,065</u>	<u>106,433</u>	<u>104,722</u>	<u>339,698</u>	<u>51,167</u>	<u>329,809</u>	<u>259,921</u>	<u>3,546,815</u>
Excess (deficiency) of revenues over expenditures	<u>417,062</u>	<u>31,840</u>	<u>(37,677)</u>	<u>(84,143)</u>	<u>356</u>	<u>274,753</u>	<u>(236,288)</u>	<u>365,903</u>

See Accompanying Notes to Financial Statements

City of New Buffalo
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	<u>Special Revenue Funds</u>							
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Park Fund</u>	<u>Special Assess-ment</u>	<u>Park Improvements Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses)								
Transfers in	\$ -	\$ -	\$ 25,000	\$ 90,000	\$ -	\$ 76,065	\$ 352,909	\$ 543,974
Transfers out	(384,735)	(45,777)	-	(81,432)	-	-	(77,807)	(589,751)
Issuance of debt	-	-	-	-	-	465,000	-	465,000
Total other financing sources (uses)	<u>(384,735)</u>	<u>(45,777)</u>	<u>25,000</u>	<u>8,568</u>	<u>-</u>	<u>541,065</u>	<u>275,102</u>	<u>419,223</u>
Net change in fund balance	<u>32,327</u>	<u>(13,937)</u>	<u>(12,677)</u>	<u>(75,575)</u>	<u>356</u>	<u>815,818</u>	<u>38,814</u>	<u>785,126</u>
Fund balance - beginning of year	<u>559,107</u>	<u>58,391</u>	<u>28,045</u>	<u>92,869</u>	<u>95,582</u>	<u>-</u>	<u>581,266</u>	<u>1,415,260</u>
Fund balance - end of year	<u>\$ 591,434</u>	<u>\$ 44,454</u>	<u>\$ 15,368</u>	<u>\$ 17,294</u>	<u>\$ 95,938</u>	<u>\$ 815,818</u>	<u>\$ 620,080</u>	<u>\$ 2,200,386</u>

City of New Buffalo
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - Total governmental funds	\$ 785,126
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(332,954)
Capital outlay	349,232
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
State shared revenue	(1,148)
Special assessments	(17,421)
Interest revenue	(1,233)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	1,417
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Debt issued	(465,000)
Bond issue costs	15,663
Repayments of long-term debt	211,742
Amortization of issuance costs, premiums, discounts and similar items	<u>(893)</u>
Change in net assets of governmental activities	<u>\$ 544,531</u>

City of New Buffalo
Proprietary Funds
Statement of Net Assets
June 30, 2008

	Enterprise Funds		
	Sewer	Water	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 157,653	\$ 2,186,706	\$ 2,344,359
Receivables			
Customers	163,935	145,410	309,345
Inventories	-	750	750
Prepaid items	1,100	14,000	15,100
Total current assets	<u>322,688</u>	<u>2,346,866</u>	<u>2,669,554</u>
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	-	15,216	15,216
Bond issue costs (net)	-	17,395	17,395
Investment in joint venture	2,524,485	-	2,524,485
Capital assets, net	<u>758,386</u>	<u>2,335,502</u>	<u>3,093,888</u>
Total noncurrent assets	<u>3,282,871</u>	<u>2,368,113</u>	<u>5,650,984</u>
Total assets	<u>3,605,559</u>	<u>4,714,979</u>	<u>8,320,538</u>

City of New Buffalo
Proprietary Funds
Statement of Net Assets
June 30, 2008

	Enterprise Funds		
	Sewer	Water	Total
Liabilities			
Current liabilities			
Accounts payable	42,630	10,502	53,132
Accrued and other liabilities	52,989	13,406	66,395
Customer deposits	-	15,216	15,216
Current portion of noncurrent liabilities	47,481	180,000	227,481
Total current liabilities	143,100	219,124	362,224
Noncurrent liabilities			
Contract payable net of current portion	1,430,041	-	1,430,041
Long-term debt net of current portion	-	559,738	559,738
Total noncurrent liabilities	1,430,041	559,738	1,989,779
Total liabilities	1,573,141	778,862	2,352,003
Net Assets			
Invested in capital assets, net of related debt	758,386	1,595,764	2,354,150
Restricted for:			
Joint venture	956,846	-	956,846
Expansion	-	203,782	203,782
Maintenance	285,855	1,078,831	1,364,686
Unrestricted	31,331	1,057,740	1,089,071
Total net assets	\$ 2,032,418	\$ 3,936,117	\$ 5,968,535

See Accompanying Notes to Financial Statements

City of New Buffalo
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2008

	Enterprise Funds		
	Sewer	Water	Total
Operating revenue			
Customer fees	\$ 744,937	\$ 876,062	\$ 1,620,999
Other revenue	8,863	308,939	317,802
Total operating revenue	<u>753,800</u>	<u>1,185,001</u>	<u>1,938,801</u>
Operating expenses			
Personnel services	33,672	405,466	439,138
Supplies	2,294	101,350	103,644
Contractual services	540,127	75,832	615,959
Utilities	3,477	49,025	52,502
Repairs and maintenance	1,577	47,912	49,489
Other expenses	2,890	31,753	34,643
Amortization	-	13,772	13,772
Depreciation	34,408	131,542	165,950
Total operating expenses	<u>618,445</u>	<u>856,652</u>	<u>1,475,097</u>
Operating income	<u>135,355</u>	<u>328,349</u>	<u>463,704</u>
Nonoperating revenue (expenses)			
Income from joint venture	22,489	-	22,489
Interest income	3,713	45,841	49,554
Interest expense	(62,098)	(32,680)	(94,778)
Total nonoperating revenues (expenses)	<u>(35,896)</u>	<u>13,161</u>	<u>(22,735)</u>
Income before transfers out	99,459	341,510	440,969
Transfers in	-	47,899	47,899
Transfers out	(2,122)	-	(2,122)
Change in net assets	97,337	389,409	486,746
Net assets - beginning of year	<u>1,935,081</u>	<u>3,546,708</u>	<u>5,481,789</u>
Net assets - end of year	<u>\$ 2,032,418</u>	<u>\$ 3,936,117</u>	<u>\$ 5,968,535</u>

See Accompanying Notes to Financial Statements

City of New Buffalo
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds		
	Sewer	Water	Total
Cash flows from operating activities			
Receipts from customers	\$ 721,287	\$ 1,252,313	\$ 1,973,600
Payments to suppliers	(583,163)	(333,386)	(916,549)
Payments to employees	(33,672)	(405,466)	(439,138)
Net cash provided by operating activities	104,452	513,461	617,913
Cash flows from noncapital financing activities			
Transfer from other funds	-	47,899	47,899
Transfers to other funds	(2,122)	-	(2,122)
Net cash provided (used) by noncapital financing activities	(2,122)	47,899	45,777
Cash flows from capital and related financing activities			
Principal and interest paid on long-term debt	(107,641)	(207,680)	(315,321)
Cash flows from investing activities			
Interest received	3,713	45,841	49,554
Net increase (decrease) in cash and cash equivalents	(1,598)	399,521	397,923
Cash and cash equivalents - beginning of year	159,251	1,802,401	1,961,652
Cash and cash equivalents - end of year	\$ 157,653	\$ 2,201,922	\$ 2,359,575

City of New Buffalo
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 135,355	\$ 328,349	\$ 463,704
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	34,408	145,314	179,722
Changes in assets and liabilities			
Receivables (net)	(32,513)	67,312	34,799
Prepaid items	200	(2,943)	(2,743)
Accounts payable	9,596	(15,906)	(6,310)
Accrued and other liabilities	(42,594)	(4,611)	(47,205)
Customer deposits	-	(1,700)	(1,700)
Due to other units of government	-	(2,354)	(2,354)
Net cash provided by operating activities	<u>\$ 104,452</u>	<u>\$ 513,461</u>	<u>\$ 617,913</u>

City of New Buffalo
Fiduciary Funds
Statement of Net Assets
June 30, 2008

	Current Tax Fund
Assets	
Cash and cash equivalents	\$ <u>4,283</u>
Liabilities	
Due to other units of government	\$ <u>4,283</u>

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies

Reporting entity

City of New Buffalo is governed by an elected five-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Blended Component Unit – A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is in substance the same as the City. It is reported as part of the City and blended into the appropriate funds.

Building Authority – The City of New Buffalo Building Authority is governed by a three member board appointed by the City Council. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The Park Fund accounts for the costs of maintaining a park and recreation program.

The Special Assessment Debt Service Fund is used to account for the annual payment of principal, interest and expenditures in connection with the long-term debt associated with the special assessment.

The Park Improvements Fund is used to account for the cost of park improvements.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

The Debt Service Funds account for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Capital Projects Fund account for the development of capital facilities other than those financed by the operations of an enterprise fund.

Trust and Agency Fund and Current Tax Collection Fund accounts for property tax and other deposits collected on behalf of other units and individuals.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally

result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services.

The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st and December 1st on the taxable valuation of property as of the

City of New Buffalo
Notes to Financial Statements
June 30, 2008

preceding December 31st. If the summer tax bills (7/1) are not paid by the due date, October 1, a 4% penalty is charged and the entire amount is rolled into the winter bills. If the winter tax bills (12/1) are not paid by the due date, February 14, a 3% penalty is charged and the balance is turned over to the County on March 1.

The City's 2007 ad valorem tax is levied and collectible on December 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the government totaled \$190,303,460 on which ad valorem taxes consisted of 10.8295 mills for operating purposes and 0.4788 for park improvements. This resulted in \$2,060,891 for operating expenses, and \$91,117 for park improvements, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Inventories and prepaid items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets – The Water fund contains a restricted cash account, which consists of customer deposits and is restricted to the refunding of those deposits at customer termination.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or

estimated historical cost, if purchased or constructed. The City began recording governmental infrastructure constructed July 1, 2003.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Land Improvements	20 years
Buildings	20 to 40 years
Building improvements	20 to 40 years
Water and sewer lines	20 to 40 years
Infrastructure	20 to 40 years
Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years

Compensated absences – Vacation and sick pay and other employee benefits, are recognized only when credit is taken by the employee. Benefits not paid to an employee during any period, except for sick pay, are not accumulated past year-end. Benefits are not paid upon termination of employment. Benefits are earned as follows:

Sick pay – Twelve days per year with a maximum 120 days during employment. No payment for unused sick pay upon termination of employment.

Vacation – One or more weeks per year, depending on years of service, no payment or carryover, if vacation is not taken except under unusual circumstances if requested by the department supervisor and approved by the city council.

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Post-employment Benefits other than Pensions*. The new pronouncement provides

guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of existing pollution; it does not include prevention or control activities or remediation required upon the retirement of an asset. In general, the new rules will cause district-wide financial statements to recognize a liability on the current value of expected costs as estimated using the expected cash flows method. This statement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. In general, the new rules will cause government-wide financial statements to include intangible assets as capital assets. This statement is effective for the year ending June 30, 2010.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal yearend.

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following June 30. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to July 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

During the year, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditure	Budget Variances
Local Street			
Public works	\$ 95,913	\$ 104,692	\$ 8,779
Major Street			
Public works	102,893	106,433	3,540
Parks			
Recreation and culture	331,131	339,698	8,567
Transfers out	5,400	81,432	76,032

Note 3 - Deposits and Investments

At yearend the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Restricted Cash and Cash
Governmental activities	\$ 1,889,829	\$ -
Business-type activities	2,344,359	15,216
Total primary government	4,234,188	15,216
Fiduciary funds	4,283	-
Total	<u>\$ 4,238,471</u>	<u>\$ 15,216</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 4,309,378	\$ 4,283
Petty cash and cash on hand	125	-
	<u>\$ 4,309,503</u>	<u>\$ 4,283</u>

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of yearend, \$3,909,995 as exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Receivables and Deferred Revenue

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
Primary government		
Special assessments	\$ 164,013	Debt Service - special assessment

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
State shared revenue	\$ 31,171
Special assessments	182,645
Other revenue	<u>9,762</u>
	<u>\$ 223,578</u>

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Note 5 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 181,467	\$ -	\$ -	\$ 181,467
Capital assets being depreciated				
Land improvements	529,500	161,611	-	691,111
Infrastructure	309,453	17,410	-	326,863
Buildings and improvements	2,689,400	118,500	-	2,807,900
Machinery and equipment	3,279,957	51,711	-	3,331,668
Total capital assets being depreciated	6,808,310	349,232	-	7,157,542
Less accumulated depreciation for				
Land improvements	369,054	26,475	-	395,529
Infrastructure	23,189	15,318	-	38,507
Buildings and improvements	743,701	68,315	-	812,016
Machinery and equipment	1,878,692	222,846	-	2,101,538
Total accumulated depreciation	3,014,636	332,954	-	3,347,590
Net capital assets being depreciated	3,793,674	16,278	-	3,809,952
Governmental activities capital assets, net	\$ 3,975,141	\$ 16,278	\$ -	\$ 3,991,419

Business-type activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 20,500	\$ -	\$ -	\$ 20,500
Capital assets being depreciated				
Buildings and improvements	6,473,022	-	-	6,473,022
Machinery and equipment	506,179	-	-	506,179
Total capital assets being depreciated	6,979,201	-	-	6,979,201
Less accumulated depreciation for				
Buildings and improvements	3,347,871	149,983	-	3,497,854
Machinery and equipment	391,992	15,967	-	407,959
Total accumulated depreciation	3,739,863	165,950	-	3,905,813
Net capital assets being depreciated	3,239,338	(165,950)	-	3,073,388
Business-type capital assets, net	\$ 3,259,838	\$ (165,950)	\$ -	\$ 3,093,888

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 82,313
Public safety	134,258
Public works	74,021
Recreation and culture	42,362
Total governmental activities	332,954

Business-type activities

Sewer	34,408
Water	131,542
Total business-type activities	165,950
Total primary government	\$ 498,904

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Note 6 - Interfund Receivables, Payables, Transfers

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General	Park	\$ 90,000
General	Equipment Purchase	120,000
General	Building Authority	125,735
General	Capital Improvement	24,000
General	Local Street	25,000
Major Street	Water	45,777
Park	Dredge	5,367
Park	Park Improvements	76,065
Capital Improvement	2003 St Paving	18,343
Capital Improvement	2005 St Paving	41,685
Capital Improvement	2007 St Paving	17,779
Sewer	Water	2,122
		<u>\$ 591,873</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

Note 7 - Leases

Capital leases

The City has a capital lease for a fire truck. The future minimum lease payments are as follows:

<u>Year ending June 30,</u>	
2009	\$ 16,132
2010	15,694
2011	15,255
2012	14,816
2013	14,378
2014	<u>13,939</u>
Total minimum lease payments	90,214
Less amount representing interest	<u>9,214</u>
Present value of minimum lease payments	<u>\$ 81,000</u>

The asset acquired through a capital lease is as follows:

Asset	
Machinery and equipment	\$ 135,000
Less accumulated depreciation	<u>(65,250)</u>
Total	<u>\$ 69,750</u>

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Note 8 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the City) are received. Installment purchase agreements are also general obligations of the government.

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
Special assessment obligations									
Obligations 2000	\$ 495,000	2019	5.40 - 6.00%	\$ 10,000-35,000	\$ 280,000	\$ -	\$ 35,000	\$ 245,000	\$ 30,000
Building authority bonds 1996	1,515,000	2061	4.90 - 5.40%	80,000-130,000	1,000,000		75,000	925,000	80,000
Installment purchase agreements									
Installment purchase - case backhoe	60,000	2010	3.75%	11,984-12,899	48,867	-	11,551	37,316	11,984
Installment purchase - emergency tanker	672,000	2021	4.83%	22,738-271,238	651,310	-	21,691	629,619	22,738
Transportation fund bonds									
2003 Michigan	155,000	2013	2.50 - 3.70%	15,000-20,000	110,000	-	15,000	95,000	15,000
2005 Michigan	315,000	2015	3.75 - 4.65%	30,000-35,000	290,000	-	30,000	260,000	30,000
2006 Michigan	180,000	2016	4.00 - 4.30%	15,000-25,000	180,000	-	10,000	170,000	15,000
Capital improvements bonds 2008	465,000	2012	2.75 - 3.35%	85,000 - 100,000	-	465,000	-	465,000	85,000
Lease purchase - fire truck	135,000	2013	3.25%	13,500	94,500	-	13,500	81,000	13,500
Total bonds payable					2,654,677	465,000	211,742	2,907,935	303,222
Less deferred amounts									
For issuance costs					(1,818)	(15,663)	(893)	(16,588)	-
Total governmental activities					\$ 2,652,859	\$ 449,337	\$ 210,849	\$ 2,891,347	\$ 303,222
Business-type activities									
Bonds and notes payable									
General obligation bonds									
2003 Limited tax	\$ 1,520,000	2012	3.20-4.30%	\$ 90,000-105,000	\$ 940,000	\$ -	\$ 175,000	\$ 765,000	\$ 180,000
Less deferred amounts									
For issuance costs					(22,747)	-	(5,352)	(17,395)	-
On refunding					(33,682)	-	(8,420)	(25,262)	-
Contract payable - GRSD	\$ 1,567,639	2028	3.125-4.70%	\$ 47,481-103,480	1,523,065	-	45,543	1,477,522	47,481
Total business-type activities					\$ 2,406,636	\$ -	\$ 206,771	\$ 2,199,865	\$ 227,481

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 303,222	\$ 115,931	\$ 180,000	\$ 28,060
2010	314,769	105,849	185,000	21,895
2011	326,386	94,988	195,000	14,691
2012	329,694	83,378	205,000	6,590
2013	340,960	71,630		
2014-2018	937,020	190,181	-	-
2019-2022	355,884	45,353	-	-
	<u>\$ 2,907,935</u>	<u>\$ 707,310</u>	<u>\$ 765,000</u>	<u>\$ 71,236</u>

Contract payable

On September 24, 2003, the Galien River Sanitary District (GRSD) issued an \$8.1 million General Obligation Limited Tax Bond. As the bonds were issued by the GRSD, the City has recorded a contract payable of \$1,567,639 for their pro-rata portion of these bonds. Annual debt service requirements to maturity for the contract payable are as follows:

June 30,	Principal	Interest
2009	\$ 47,481	\$ 60,901
2010	48,450	59,402
2011	50,388	57,795
2012	52,326	55,996
2013	54,264	54,030
2014-2018	301,359	237,470
2019-2023	364,344	170,939
2024-2028	455,430	92,517
2029	103,480	2,437
	<u>\$ 1,477,522</u>	<u>\$ 791,487</u>

For the year ended June 30, 2008 the government's annual interest expense on this contract was \$62,098.

City of New Buffalo
Notes to Financial Statements
June 30, 2008

Note 9 - Defeased Debt

On September 30, 2003, the City defeased a bond issued by creating a separate irrevocable trust fund. New debt has been issued and the net proceeds of the refunding were placed in a separate special escrow account and invested in securities of the U.S. Government and its agencies. The investment and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements.

As of June 30, 2008, the amount of defeased debt outstanding but removed from the City's financial statements amounted to \$875,000 for the refinancing of the Water Supply System Revenue Bonds of 1995.

Note 10 - Restricted Net Assets

In 1996, the City Council restricted one third of all water tap-in fees per year to be escrowed for future system expansion and studies. The City Council ended the one third restrictions of the water tap-in fees in 2007 but continues to restrict the accumulated unspent balance as of that date. The restricted balance at June 30, 2008 and 2007 was \$203,782 and \$203,782, respectively.

Note 11 - Risk Management

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for workers' compensation, death, and disability, hospitalization and life claims and participates in the Michigan Municipal League risk pool for claims relating to liability, fire, fleet and bonds. Settled claims relating to the

commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 12 - Employee Retirement And Benefit Systems

Defined benefit pension plan

Effective February 1, 2007, the government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. The report provides information for the plan as a whole and information helpful for understanding the scale of the information presented relative to the government. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding policy – The obligation to contribute to and maintain the system for these employees requires a contribution from the employees of 3.6% of gross wages for General, and Police and Fire employees. The City's contribution for these employees is 7.0%.

Annual pension costs – For year ended June 30, 2008, the government's annual pension cost of \$68,329 and the employee contribution of \$34,246 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an initial actuarial valuation at January 1, 2007, using the entry age normal cost method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary

City of New Buffalo
Notes to Financial Statements
June 30, 2008

increases of 4.5% percent per year; and 3) no cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll contributions over a period of years. The remaining amortization period is 30 years.

Three year trend information is not available due to the recent adoption date of the plan.

One employee is covered by a separate deferred compensation pension plan in which they have the option of making matching contributions to the plan. The contributions are fully vested. Employer contributions are based on 7 percent of gross earnings and are fully vested after 10 years of service. On October 1, 2002 the City adopted an amendment to this plan. Under the amendment, the employee is not required to make contributions to the plan. The City is required to contribute 7 percent of the employee's gross earnings and these contributions are fully vested. The total employer contributions were \$2,237 based on a covered based salary of \$31,953.

Note 13 - Joint Ventures

The City is a participant in related organizations as follows:

The City is a member of the Pine Grove Cemetery, which provides services to residents of New Buffalo and the New Buffalo Township. The participating communities provide annual funding for the operations of the cemetery. During the current year, the City contributed \$24,000 for its operation.

The City is a participant with Chikaming Township, Lake Township, New Buffalo Township, and the City of Bridgman, in a joint venture to provide sanitary sewage treatment and collection facilities for the residents of those communities. The Galien River Sanitary District pro-rata percentage of ownership is as follows:

City of New Buffalo	21.6%
Chikaming Township	28.6%
New Buffalo Township	16.6%
Lake Charter Township	16.6%
City of Bridgman	16.6%

The Galien River Sanitary District (GRSD) is governed by a six-member Board of Trustees, one member selected by the governing body of each constituent municipality (for a total of five members), and one member is selected by the other five members. The term of office is six years. The at-large member serves as Chairperson of the Board. The contracting parties provide annual funding to meet debt service requirements on bonds issued to pay for plant construction.

On September 23, 2003, the GRSD issued an \$8.1 million General Obligation Limited Tax Bond for the design, acquisition, construction and equipping improvements for expansion of the plant. As the bonds were issued by the GRSD, the City has recorded a contract payable in the amount of \$1,567,639 for their pro-rata portion of these bonds. The GRSD bills the City for their portion of principal and interest on the bonds as those payments become due. The contract payable balance as of June 30, 2008 was \$1,477,522. See note 8 for details.

On February 1, 2007, the GRSD issued a \$1.8 million General Obligation Limited Tax Bond for plant improvements. The GRSD will pay the principal of and interest on such bonds from revenue of the GRSD. If these revenues are insufficient or unavailable for such payment, then each local unit shall pay 20% of each payment.

City of New Buffalo
Notes to Financial Statements
June 30, 2008

The City's share of the operating results of the District are reported in the City's Sewer Fund (an Enterprise Fund). The City's equity interest in the District was \$934,357 at December 31, 2006 (the District's year-end) and \$956,846 at December 31, 2007. Completed financial statements for the Galien River Sanitary District can be obtained from the New Buffalo City Clerk's office.

no indication that the GRSD will be unable to service this debt and therefore, no liability has been recognized by the City. The outstanding balance of these bonds as of June 30, 2008 was \$1,800,000.

Note 14 - Building Permit Fees

The City charges a fee for generating building permits for commercial and residential construction projects. An outside contractor, who receives 80% of the building permit fees generated, performs the work. The City keeps an administrative fee of 20%.

A breakdown of the revenues and related expenditures for the year ended June 30, 2008 is as follows:

Carryover excess from prior year	\$ 28,867
Total building permit revenues	91,566
Total building permit expenditures	<u>(106,251)</u>
Excess of revenues over expenditures	<u>\$ 14,182</u>

A reservation of fund balance in the General Fund is required because of the excess.

Note 15 - Contingent Liability

The City is a participant in a joint venture (see note 13) with the GRSD. The GRSD issued a \$1.8 million General Obligation Limited Tax Bond on February 1, 2007. The GRSD will pay the principal and interest payments of this bond with revenues generated by the GRSD.

However, if such revenue is insufficient or unavailable for such payment, each local unit in the joint venture is responsible to pay an equal share, or 20% of each payment. As of June 30, 2008, there is

City of New Buffalo
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes				
Property taxes	\$ 2,062,950	\$ 2,062,950	\$ 2,068,481	\$ 5,531
Penalties and interest	13,000	8,000	7,472	(528)
Licenses and permits	145,100	118,003	91,570	(26,433)
State revenue sharing	178,900	190,000	190,866	866
Charges for services	308,075	306,925	303,453	(3,472)
Fines and forfeitures	28,000	42,060	41,474	(586)
Interest income	27,100	27,100	37,760	10,660
Other revenue	36,360	47,860	31,051	(16,809)
Sale of fixed assets	200	-	-	-
	<u>2,799,685</u>	<u>2,802,898</u>	<u>2,772,127</u>	<u>(30,771)</u>
Total revenues				
Expenditures				
General government				
Legislative	45,965	58,215	56,008	(2,207)
Executive	146,544	131,960	130,421	(1,539)
Clerk	117,795	118,345	112,359	(5,986)
Board of review	1,500	1,500	1,200	(300)
Treasurer	144,300	137,466	139,074	1,608
Assessor	35,540	49,620	38,998	(10,622)
Elections	11,741	8,588	5,954	(2,634)
Cemetery	24,000	24,000	24,000	-
	<u>527,385</u>	<u>529,694</u>	<u>508,014</u>	<u>(21,680)</u>
Total general government				

See Accompanying Notes to Financial Statements

City of New Buffalo
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Public safety				
Police	\$ 773,681	\$ 837,291	\$ 824,164	\$ (13,127)
Fire department	101,576	95,143	78,398	(16,745)
Building inspection department	153,758	127,459	106,251	(21,208)
Total public safety	1,029,015	1,059,893	1,008,813	(51,080)
Public works				
Highways, streets and bridges	368,963	348,761	307,338	(41,423)
Street lighting	34,000	34,000	36,562	2,562
Sanitation department	201,400	177,400	170,536	(6,864)
Total public works	604,363	560,161	514,436	(45,725)
Health and welfare				
Ambulance	110,000	110,000	101,948	(8,052)
Community and economic development				
Planning	18,869	11,429	7,461	(3,968)
Zoning	6,743	4,393	3,980	(413)
Total community and economic development	25,612	15,822	11,441	(4,381)
Recreation and culture				
Parks and recreation	2,100	2,100	241	(1,859)

See Accompanying Notes to Financial Statements

City of New Buffalo
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Other functions				
Insurance and bonds	\$ 33,760	\$ 28,268	\$ 27,886	\$ (382)
Miscellaneous projects	110,400	134,810	112,570	(22,240)
Tax tribunal refunds	1,000	1,000	-	(1,000)
Total other functions	145,160	164,078	140,456	(23,622)
Debt service				
Principal retirement	69,720	69,720	35,191	(34,529)
Interest and fiscal charges	-	-	34,525	34,525
Total debt service	69,720	69,720	69,716	(4)
Transfers out	359,735	384,735	384,735	-
Total expenditures	2,873,090	2,896,203	2,739,800	(156,403)
Excess (deficiency) of revenues over expenditures	(73,405)	(93,305)	32,327	125,632
Fund balance - beginning of year	559,107	559,107	559,107	-
Fund balance - end of year	\$ 485,702	\$ 465,802	\$ 591,434	\$ 125,632

See Accompanying Notes to Financial Statements

City of New Buffalo
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State revenue sharing	\$ 140,000	\$ 140,000	\$ 137,124	\$ (2,876)
Interest income	1,000	1,000	1,149	149
Total revenues	141,000	141,000	138,273	(2,727)
Expenditures				
Current				
Public works	107,848	102,893	106,433	3,540
Transfers out	45,777	45,777	45,777	-
Total expenditures	153,625	148,670	152,210	3,540
Deficiency of revenues over expenditures	(12,625)	(7,670)	(13,937)	(6,267)
Fund balance - beginning of year	58,391	58,391	58,391	-
Fund balance - end of year	\$ 45,766	\$ 50,721	\$ 44,454	\$ (6,267)

See Accompanying Notes to Financial Statements

City of New Buffalo
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State revenue sharing	\$ 67,971	\$ 67,971	\$ 67,045	\$ (926)
Interest income	500	500	-	(500)
Transfers in	-	25,000	25,000	-
	<u>68,471</u>	<u>93,471</u>	<u>92,045</u>	<u>(1,426)</u>
Expenditures				
Current				
Public works	<u>74,060</u>	<u>95,913</u>	<u>104,722</u>	<u>8,809</u>
				-
Total expenditures	<u>74,060</u>	<u>95,913</u>	<u>104,722</u>	<u>8,809</u>
Deficiency of revenues over expenditures	(5,589)	(2,442)	(12,677)	(10,235)
Fund balance - beginning of year	<u>28,045</u>	<u>28,045</u>	<u>28,045</u>	<u>-</u>
Fund balance - end of year	<u>\$ 22,456</u>	<u>\$ 25,603</u>	<u>\$ 15,368</u>	<u>\$ (10,235)</u>

City of New Buffalo
Required Supplemental Information
Budgetary Comparison Schedule
Park Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	\$ 218,000	\$ 228,000	\$ 236,139	\$ 8,139
Interest income	500	500	2,242	1,742
Other revenue	9,500	7,400	17,174	9,774
Total revenues	228,000	235,900	255,555	19,655
Expenditures				
Current				
Recreation and culture	297,362	331,131	339,698	8,567
Capital outlay	10,000	-	-	-
Total expenditures	307,362	331,131	339,698	8,567
Excess (deficiency) of revenues over expenditures	(79,362)	(95,231)	(84,143)	11,088
Other financing sources				
Transfers in	90,000	90,000	90,000	-
Transfers out	(5,000)	(5,400)	(81,432)	(76,032)
Total other financing sources	85,000	84,600	8,568	(76,032)
Net change in fund balance	5,638	(10,631)	(75,575)	(64,944)
Fund balance - beginning of year	92,869	92,869	92,869	-
Fund balance - end of year	\$ 98,507	\$ 82,238	\$ 17,294	\$ (64,944)

City of New Buffalo
Required Supplemental Information
Budgetary Comparison Schedule
Special Assessment Debt Service Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Interest income	\$ 1,000	\$ 1,000	\$ 20,193	\$ 19,193
Other revenue	47,345	47,345	31,330	(16,015)
Total revenues	48,345	48,345	51,523	3,178
Expenditures				
Current				
Debt service				
Principal retirement	35,000	35,000	35,000	-
Interest and fiscal charges	16,455	16,455	16,167	(288)
Total expenditures	51,455	51,455	51,167	(288)
Excess (deficiency) of revenues over expenditures	(3,110)	(3,110)	356	3,466
Fund balance - beginning of year	95,582	95,582	95,582	-
Fund balance - end of year	\$ 92,472	\$ 92,472	\$ 95,938	\$ 3,466

City of New Buffalo
Required Supplemental Information
Budgetary Comparison Schedule
Park Improvements Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes	\$ 91,000	\$ 91,000	\$ 91,417	\$ 417
Grants	-	253,000	506,000	253,000
Interest income	4,000	4,000	2,145	(1,855)
Contributions	500	5,000	5,000	-
Total revenues	95,500	353,000	604,562	251,562
Expenditures				
Current				
Recreation and culture	5,000	5,000	-	(5,000)
Capital outlay	425,000	317,427	314,146	(3,281)
Debt service				
Interest and fiscal charges	-	16,500	15,663	(837)
				-
Total expenditures	430,000	338,927	329,809	(9,118)
				-
Excess of revenues (deficiency) over expenditures	(334,500)	14,073	274,753	260,680
Other financing sources				
Transfers in	-	-	76,065	76,065
Bond/note proceeds	400,000	465,000	465,000	-
Total other financing sources	400,000	465,000	541,065	76,065
Net change in fund balance	65,500	479,073	815,818	336,745
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ 65,500	\$ 479,073	\$ 815,818	\$ 336,745

See Accompanying Notes to Financial Statements

City of New Buffalo
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue Fund	Debt Service		Capital Project Funds					Total Nonmajor Govern- mental Funds
	Harbor Dredging	Michigan Transport- ation	GO Bond Debt	Park Beautifi- cation	Equip- ment Purchase	Building Authority	Capital Improve- ment	Trans- portation Improve- ment	
Assets									
Cash and cash equivalents	\$ 124,410	\$ 30,058	\$ 2,622	\$ 304	\$ 226,728	\$ 104,548	\$ 114,396	\$ 17,014	\$ 620,080
Total assets	<u>\$ 124,410</u>	<u>\$ 30,058</u>	<u>\$ 2,622</u>	<u>\$ 304</u>	<u>\$ 226,728</u>	<u>\$ 104,548</u>	<u>\$ 114,396</u>	<u>\$ 17,014</u>	<u>\$ 620,080</u>
Fund Balances									
Reserved for:									
Debt service	\$ -	\$ 30,058	\$ 2,622	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,680
Unreserved									
Designated for:									
Undesignated	<u>124,410</u>	<u>-</u>	<u>-</u>	<u>304</u>	<u>226,728</u>	<u>104,548</u>	<u>114,396</u>	<u>17,014</u>	<u>587,400</u>
Total fund balances	<u>\$ 124,410</u>	<u>\$ 30,058</u>	<u>\$ 2,622</u>	<u>\$ 304</u>	<u>\$ 226,728</u>	<u>\$ 104,548</u>	<u>\$ 114,396</u>	<u>\$ 17,014</u>	<u>\$ 620,080</u>

See Accompanying Notes to Financial Statements

City of New Buffalo
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue Funds	Debt Service	Capital Project Fund					Trans- portation Improve- ment	Total Nonmajor Govern- mental Funds
	Harbor Dredging	Michigan Transport- ation	GO Bond Debt	Park Beautifi- cation	Equip- ment Purchase	Building Authority	Capital Improve- ment		
Revenues									
Interest income	\$ 3,181	\$ 208	\$ 547	\$ 3	\$ 3,902	\$ 1,408	\$ 2,134	\$ -	\$ 11,383
Other revenue	<u>12,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,250</u>
Total revenues	<u>15,431</u>	<u>208</u>	<u>547</u>	<u>3</u>	<u>3,902</u>	<u>1,408</u>	<u>2,134</u>	<u>-</u>	<u>23,633</u>
Expenditures									
Current									
Other functions	-	-	-	-	-	-	-	15	15
Capital outlay	-	-	-	-	39,028	-	-	2,626	41,654
Debt service									
Principal retirement	-	55,000	-	-	11,551	75,000	-	-	141,551
Interest and fiscal charges	<u>-</u>	<u>23,084</u>	<u>-</u>	<u>-</u>	<u>1,833</u>	<u>51,460</u>	<u>324</u>	<u>-</u>	<u>76,701</u>
Total expenditures	<u>-</u>	<u>78,084</u>	<u>-</u>	<u>-</u>	<u>52,412</u>	<u>126,460</u>	<u>324</u>	<u>2,641</u>	<u>259,921</u>
Excess (deficiency) of revenues over expenditures	<u>15,431</u>	<u>(77,876)</u>	<u>547</u>	<u>3</u>	<u>(48,510)</u>	<u>(125,052)</u>	<u>1,810</u>	<u>(2,641)</u>	<u>(236,288)</u>

City of New Buffalo
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue Funds	Debt Service	Capital Project Fund					Trans- portation Improve- ment	Total Nonmajor Govern- mental Funds
	Harbor Dredging	Michigan Transport- ation	GO Bond Debt	Park Beautifi- cation	Equip- ment Purchase	Building Authority	Capital Improve- ment		
Other financing sources									
Transfers in	5,367	77,807	-	-	120,000	125,735	24,000	-	352,909
Transfers out	-	-	-	-	-	-	(77,807)	-	(77,807)
Total other financing sources	5,367	77,807	-	-	120,000	125,735	(53,807)	-	275,102
Net change in fund balance	20,798	(69)	547	3	71,490	683	(51,997)	(2,641)	38,814
Fund balance - beginning of year	103,612	30,127	2,075	301	155,238	103,865	166,393	19,655	581,266
Fund balance - end of year	<u>\$ 124,410</u>	<u>\$ 30,058</u>	<u>\$ 2,622</u>	<u>\$ 304</u>	<u>\$ 226,728</u>	<u>\$ 104,548</u>	<u>\$ 114,396</u>	<u>\$ 17,014</u>	<u>\$ 620,080</u>

See Accompanying Notes to Financial Statements

City of New Buffalo
Other Supplemental Information
Schedule of Indebtedness
June 30, 2008

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
Governmental Activities				
Michigan Transportation Fund Bonds, Series 2006	4.00%	10/1/2008	\$ 15,000	\$ 15,000
Date of agreement: 10/1/07	4.05%	10/1/2009	15,000	15,000
Amount of agreement: \$180,000	4.10%	10/1/2010	15,000	15,000
	4.15%	10/1/2011	20,000	20,000
	4.20%	10/1/2012	20,000	20,000
	4.20%	10/1/2013	20,000	20,000
	4.25%	10/1/2014	20,000	20,000
	4.25%	10/1/2015	20,000	20,000
	4.30%	10/1/2016	25,000	25,000
				<u>170,000</u>
2000 Special Assessment Bonds	5.40%	06/01/09	30,000	30,000
Date of issue: 4-1-00	5.50%	06/01/10	30,000	30,000
Amount of issue: \$495,000	5.55%	06/01/11	30,000	30,000
	5.60%	06/01/12	35,000	35,000
	5.65%	06/01/13	30,000	30,000
	5.75%	06/01/14	30,000	30,000
	5.85%	06/01/15	15,000	15,000
	5.90%	06/01/16	10,000	10,000
	6.00%	06/01/17	10,000	10,000
	6.00%	06/01/18	15,000	15,000
	6.00%	06/01/19	10,000	10,000
				<u>245,000</u>

City of New Buffalo
Other Supplemental Information
Schedule of Indebtedness
June 30, 2008

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
1996 Building Authority Bonds	4.90%	09/01/08	\$ 80,000	\$ 80,000
Date of issue: 1-1-97	5.00%	09/01/09	85,000	85,000
Amount of issue: \$1,515,000	5.10%	09/01/10	90,000	90,000
	5.20%	09/01/11	95,000	95,000
	5.25%	09/01/12	100,000	100,000
	5.30%	09/01/13	110,000	110,000
	5.35%	09/01/14	115,000	115,000
	5.40%	09/01/15	120,000	120,000
	5.40%	09/01/16	130,000	130,000
				<u>925,000</u>
Michigan Transportation Fund Bonds, Series 2003	2.50%	12/01/08	15,000	15,000
Date of issue: 7-15-03	2.80%	12/01/09	15,000	15,000
Amount of issue: \$155,000	3.20%	12/01/10	15,000	15,000
	3.40%	12/01/11	15,000	15,000
	3.60%	12/01/12	15,000	15,000
	3.70%	12/01/13	20,000	20,000
				<u>95,000</u>
Equipment Lease Purchase Agreement	3.25%	09/10/08	13,500	13,500
Date of agreement: 9-10-03	3.25%	09/10/09	13,500	13,500
Amount of agreement: \$135,000	3.25%	09/10/10	13,500	13,500
	3.25%	09/10/11	13,500	13,500
	3.25%	09/10/12	13,500	13,500
	3.25%	09/10/13	13,500	13,500
				<u>81,000</u>

City of New Buffalo
Other Supplemental Information
Schedule of Indebtedness
June 30, 2008

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
Michigan Transportation Fund Bonds, Series 2005	3.75%	10/01/08	\$ 30,000	\$ 30,000
Date of agreement: 11/1/05	3.90%	10/01/09	30,000	30,000
Amount of agreement: \$315,000	4.10%	10/01/10	30,000	30,000
	4.20%	10/01/11	30,000	30,000
	4.30%	10/01/12	35,000	35,000
	4.40%	10/01/13	35,000	35,000
	4.50%	10/01/14	35,000	35,000
	4.65%	10/01/15	35,000	35,000
				<u>260,000</u>
Installment Purchase Agreement	3.75%	07/15/08	11,984	11,984
Date of agreement: 7/15/05	3.75%	07/15/09	12,433	12,433
Amount of agreement: \$60,000	3.75%	07/15/10	12,899	12,899
				<u>37,316</u>
Installment Purchase Agreement	4.83%	03/10/09	22,738	22,738
Date of agreement: 3/10/06	4.83%	03/10/10	23,836	23,836
Amount of agreement: \$672,000	4.83%	03/10/11	24,987	24,987
	4.83%	03/10/12	26,194	26,194
	4.83%	03/10/13	27,460	27,460
	4.83%	03/10/14	28,786	28,786
	4.83%	03/10/15	30,176	30,176
	4.83%	03/10/16	31,634	31,634
	4.83%	03/10/17	33,162	33,162
	4.83%	03/10/18	34,763	34,763
	4.83%	03/10/19	36,442	36,442
	4.83%	03/10/20	38,203	38,203
	4.83%	03/10/21	271,238	271,238
				<u>629,619</u>

City of New Buffalo
Other Supplemental Information
Schedule of Indebtedness
June 30, 2008

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
Capital Improvements Bonds, Series 2008	2.75%	10/01/08	\$ 85,000	\$ 85,000
Date of agreement: 5/1/08	2.85%	10/01/09	90,000	90,000
Amount of agreement: \$465,000	3.05%	10/01/10	95,000	95,000
	3.05%	10/01/11	95,000	95,000
	3.35%	10/01/12	100,000	100,000
				<u>465,000</u>
Less deferred amounts				<u>(16,588)</u>
Total governmental activities				<u>2,891,347</u>
Business-type Activities				
Limited Tax General Obligation Bonds, Series 2003	3.20%	11/01/08	90,000	90,000
Date of issue: 9-30-03	3.50%	05/01/09	90,000	90,000
Amount of issue: \$1,520,000	3.50%	11/01/09	90,000	90,000
	3.95%	05/01/10	95,000	95,000
	3.95%	11/01/10	95,000	95,000
	4.15%	05/01/11	100,000	100,000
	4.15%	11/01/11	100,000	100,000
	4.30%	05/01/12	105,000	105,000
				<u>765,000</u>
Less deferred amounts				<u>(42,657)</u>

City of New Buffalo
Other Supplemental Information
Schedule of Indebtedness
June 30, 2008

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
Contract Payable - GRSD	3.125%	11/01/08	\$ 47,481	\$ 47,481
Date of contract: 12-10-03	3.125%	11/01/09	48,450	48,450
Amount of contract: \$1,567,639	3.375%	11/01/10	50,388	50,388
	6.625%	11/01/11	52,326	52,326
	3.750%	11/01/12	54,264	54,264
	3.875%	11/01/13	56,202	56,202
	3.600%	11/01/14	58,140	58,140
	3.700%	11/01/15	60,078	60,078
	3.900%	11/01/16	62,016	62,016
	3.950%	11/01/17	64,923	64,923
	4.050%	11/01/18	66,861	66,861
	4.150%	11/01/19	69,768	69,768
	4.250%	11/01/20	72,675	72,675
	4.350%	11/01/21	75,582	75,582
	4.450%	11/01/22	79,458	79,458
	4.550%	11/01/23	83,334	83,334
	4.625%	11/01/24	86,241	86,241
	4.625%	11/01/25	91,086	91,086
	4.700%	11/01/26	94,962	94,962
	4.700%	11/01/27	99,807	99,807
	4.700%	11/01/28	103,480	103,480
				<u>1,477,522</u>
Total business-type activities				<u>2,199,865</u>
Total indebtedness				<u>\$ 5,091,212</u>



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November 11, 2008

Management and the Members of the City Council
City of New Buffalo
224 West Buffalo
New Buffalo, MI 49117

We have completed our audit of the financial statements of the City of New Buffalo as of and for the year ended June 30, 2008 and have issued our report dated November 11, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I Communication of Internal Control Matters Identified During the Audit
- II Auditors' Communication of Significant Matters with Those Charged with Governance
- III Management Comments

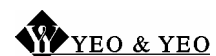
We discussed these matters with various personnel in the organization during the audit and have already met with management on October 29, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the City Council, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Sincerely,

Yeo & Yeo, P.C.

Kalamazoo, Michigan



Appendix I

Communication of Internal Control Matters Identified During an Audit

In planning and performing our audit of the financial statements of the City of New Buffalo as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of New Buffalo's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

Reconciliations

As part of the internal control process, accounts should be reconciled on a timely basis. We noted that certain reconciliations were not performed on a timely basis. We recommend that monthly reconciliations of pertinent accounts be completed prior to the end of the following month. In addition we recommend that all reconciliations be reviewed by someone who is not involved in the reconciliation process. This review should be documented with initialing and dating of the reconciliation. The reconciliation process helps to detect any errors or frauds that may have occurred within an account. For example, timely bank reconciliations may detect bank charges which have not been posted to the general ledger; timely accounts receivable reconciliations between the subsidiary ledgers and the general ledger may detect mispostings of transactions to the wrong general ledger account. If the time commitment necessary to reconcile all pertinent accounts on a monthly basis is greater than the City can afford to expend, we would recommend reevaluating the number of accounts in the general ledger and the reasons for separate accounts. Many times over the evolution of a City, certain accounts which were once vital are no longer vital but continue to remain due to habit, in which case you could discontinue use of those accounts.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

Appendix II

Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated August 29, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter to you related to planning matters dated August 29, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in Note 1 of the financial statements. We noted no transactions entered into by the City during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.

Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.

Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix III Management Comments

In planning and performing our audit of the financial statements of the City of New Buffalo as of and for the year ended June 30, 2008, we considered the City of New Buffalo's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated November 11, 2008, on the financial statements of the City of New Buffalo. Our comments and recommendations regarding those matters are:

Financial Statement Preparation Controls

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the City's financial statements. However, if at any point in the audit we as auditors are part of the City's control system for producing reliable financial statements, auditing standards indicate that the City has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

Documentation of Internal Controls

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the City. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the City completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

Information Technology

During the course of our audit, we obtained an understanding of internal controls over the information technology (IT) system. We noted certain control deficiencies that could prevent the creation of complete and accurate financial reporting. We recommend that all computers require a user specific login and password. We further recommend that passwords not be written down in an obvious location such as on top of the desk. If passwords do need to be written down, we recommend that the location be inconspicuous and known only by the appropriate user. We also recommend that each user of an application be given a unique login and password for that application. These unique user names and passwords will prevent unauthorized employees from accidentally inputting information into the system. User names and passwords will also allow information inputted to be traced to a specific employee rather than to a general pool of employees. The implementation of a password policy which requires periodic changing of passwords is also beneficial.